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SUBJECT: ARGENTINA: GOVERNMENT CLEARS LEGAL HURDLES TO PARIS CLUB
PAYMENT

Summary

¶1. (SBU) With little fanfare, the GoA has moved to amend the Argentine Central Bank's (BCRA) Charter to allow for the legal use of BCRA reserves to pay Paris Club debts (see reftels for background). The GoA added an article to this effect to the decree issued September 16 amending the 2008 budget law (septel), which it submitted to Congress September 18. There are differing opinions over whether Congress must actively ratify the decree or whether it will automatically enter into force if Congress does not object. Regardless, Post's GoA and BCRA contacts agree that this amendment should clear the way for Argentina to pay arrears due Paris Club member countries. GoA officials held their first conference call with the Paris Club Secretariat September 18 to begin reconciling debt figures, and are confident the process can be completed within one to two weeks. BCRA officials caution that the process could take longer, but expect the GoA to complete the process this year.
End Summary.

New GoA Decree Includes Amendment to BCRA Charter

¶2. (SBU) With no accompanying press statements or other fanfare, the GoA published special Decree 1472 (a Necessity and Urgency Decree -- DNU -- that is equivalent to law) in the Official Gazette on September 16, and then submitted it to Congress for review on September 18. This decree amends the 2008 Budget Law to allow for a 36 billion peso (roughly \$12bn) increase in spending. Decree 1472 also includes a brief Article (Art. 16) amending the BCRA's Charter to allow the use of reserves to pay Paris Club (PC) debt. (See Reftels for background on President Cristina Fernandez de Kirchner's September 2 announcement that the GoA would pay PC debt using BCRA reserves.)

¶3. (SBU) Specifically, Article 16 of Decree 1472 establishes an exemption to the BCRA prohibition on long-term lending to the GoA. (Limited short-term lending has always been allowed.) This exemption allows the BCRA to issue a loan to the GoA for the purpose of paying public debts as specified by Decree 1394, which the President signed September 2, declaring the GoA's intention to pay 100% of debts owed to PC using reserves. By including it as one minor article in an eighteen-article decree about the current year's budget, the GoA kept press attention to a minimum. Those few in the

media who picked up on it seem to have done it by accident when analyzing the 2008 budget increase. This is also how Post discovered it. (Comment: This below-the-radar approach to change the BCRA Charter contrasts with the high-profile manner in which the GoA handled the January 2006 payment to the IMF using reserves, when it issued a DNU specifically for that purpose. End Comment.)

¶4. (SBU) Post has confirmed with both Economy Ministry and BCRA officials that this amendment eliminates any legal restrictions on the BCRA and thus clears the way for Argentina to pay arrears due PC member countries. Nevertheless, there are differing opinions among Post's various GoA and BCRA interlocutors over whether Congress must actively ratify the decree or whether it will automatically enter into force absent Congressional objection.

¶5. (SBU) Since Decree 1472 is a special DNU, it carries the force of law. According to regulation, DNUs are sent to a special commission in Congress. If that commission does not reject the decree, Congress' tacit approval is assumed. Given that the GoA has a majority in Congress (and on this special commission), Post's contacts see Congressional approval as a done deal. (Comment: On occasion, particularly with high-profile DNUs, Congress has actively ratified them into law, and BCRA contacts expect that will be the case with Decree 1472. Either way it should not affect the final outcome. End Comment.)

¶6. (SBU) Decree 1472 establishes that the Economy Ministry will issue a tradable bond to the BCRA for up to the total amount owed to PC creditors. The decree does not provide the financial conditions of the bond, nor does it provide an exact figure for payment. (Comment: As explained reftels, during the President's September 2 speech, she cited the incorrect figure of \$6.7 billion as the total

BUENOS AIR 00001312 002 OF 002

debt owed to official creditors. However, Paris Club Chairman Xavier Musca subsequently clarified that the full amount due is \$7.9 billion, including roughly \$6.7 billion principal and interest arrears and approximately \$1.3 billion in outstanding principal. End Comment.)

¶7. (SBU) Economy Ministry and PC Secretariat officials held their first conference call September 18 to start the process of reconciling the difference between these two figures. (GoA officials tell Post that there are over 200 separate credit lines to 17 separate PC creditor nations.) A GoA official who participated on that call subsequently told Econoffs that the process should flow relatively easily. He even speculated that the full reconciliation process should take not longer than two weeks to accomplish. Post's BCRA contacts suspect the process may take longer, given that the Economy Ministry's own estimates are only about \$7 billion (higher than the incorrect figure cited by the President but still significantly lower than the PC's estimate). Nevertheless, BCRA contacts see no reason why the GoA should not be able to complete the process in 2008.